

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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This *Outlook* is dedicated to all the hardworking Idaho students. The current school year is already several months old. With the passing of time, the excitement of the new school year has been enveloped with deadlines for homework, pop quizzes, exams, and theme papers. Given these heavy demands, it is natural for you to wonder why you are hitting the books so hard. No doubt your parents, teachers, and counselors have told you it pays to stay in school. We agree. In fact, we have the U.S. Census Bureau numbers to back it up.

One measure of the value of an education is whether it increases your earnings potential. Thus, our hypothesis is: the more education you have, the more you can expect to earn. According to the U.S. Census Bureau this is true. This can be seen in the included graph. It shows a U.S. worker over 17 years of age without a high school diploma earned an average of \$19,169 in 2004. Earnings jumped by over \$9,000 to \$28,645 for a worker with a high school diploma. A worker with a bachelor's degree earned an average of \$51,554, which is a sizable increase of nearly \$23,000 over a worker with a high school diploma. But earnings do not top out with a bachelor's degree. A professional earns an average of \$78,093 per year, about \$26,500 more than a worker with a bachelor's degree. Clearly, our hypothesis holds.

The Census Bureau also reports how educational attainment is distributed over the adult (over 24 years old) population. According to this data, about 85% of Americans had a high school diploma. About 28% of the population had a bachelor's degree and about 10% had an advanced or

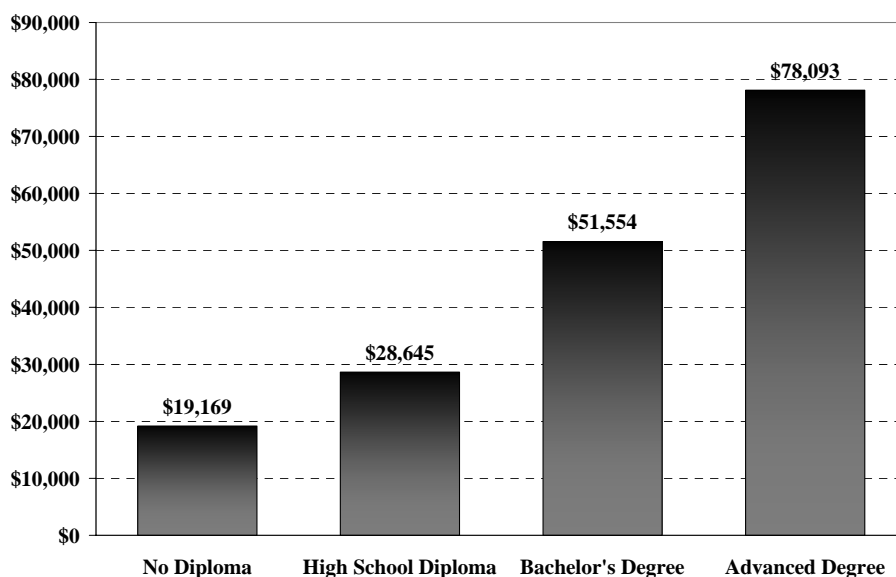
professional degree. The states with the highest percent of high school graduates were Minnesota (92.4%) and Utah (92.5%). Texas (78.2%) and Kentucky (78.9%) had the lowest percent. Washington, D.C., by far, had the highest percent of bachelor's degrees, 46.5%. At the other end of the rankings, about 15% of West Virginia's adult population held bachelor's degrees. Locally, about 89% of Idahoans earned high school diplomas and 26% had bachelor degrees.

Let's run an experiment to calculate what the difference in earnings may amount to over your career. To keep our analysis simple we will compare the earnings gap between a high school graduate with a college graduate. Given that wages in highly skilled positions tend to rise faster than in lower skilled positions,

we assume the gap widens 2% per year. The initial earnings gap of \$23,000 grows to nearly \$49,600 after 40 years. The cumulative difference over those 40 years would be a whopping \$1.383 million. That's real money. Keep in mind most of the difference is due to the higher earning potential of college graduates, and not the assumed 2% differential in the earnings growth rate. Indeed, even if the earnings gap remained constant, the cumulative difference (\$23,000 per year times 40 years) would still be over \$900,000.

As you can see, these numbers do add up. It really does pay to stay in school. Hopefully, this will keep you motivated whether you are seeking roots of quadratic equations or tracing the route of the Krebs Cycle. End of class.

**Average Earnings by Education:2004**



Source: U.S. Census Bureau

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## General Fund Update

As of September 30, 2006

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY07 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,245.3	253.7	258.8
Corporate Income Tax	207.0	46.5	50.3
Sales Tax	1,074.6	244.3	254.1
Product Taxes <sup>1</sup>	21.7	9.9	8.4
Miscellaneous	113.9	23.6	29.2
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,662.5</b>	<b>578.0</b>	<b>600.9</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of August 2006

General Fund revenue strength rebounded in September after a modest lull in August. September revenue exceeded expectations by \$8.9 million, bringing the year-to-date excess to \$22.9 million. Sales tax remains the revenue star, turning in its best performance this fiscal year in September. It is also the strongest revenue category on a year-to-date basis, accounting for almost half of the total General Fund excess.

Individual income tax revenue was \$1.4 million higher than expected in September, bringing the fiscal year-to-date excess to \$5.1 million. This modestly positive result masks some potential problems if they turn into trends. The month's result consists of \$6.6 million more than expected in filing payments plus \$1.8 million from lower-than-expected refunds, offset by \$7.1 million less in withholding collections than were expected. This is

the second straight month of lower-than-expected withholding collections, but August was down by a much more meager \$0.6 million. Withholding collections are now \$4.7 million lower than expected for the fiscal year to date.

Corporate income tax revenue bounced back in September, coming in \$2.8 million above expectations for the month, and now stand \$3.8 million ahead of the year-to-date predicted value. Filing payments were \$1 million higher than expected, estimated payments were \$2 million higher than expected, and refunds were \$0.2 million lower than expected for the month.

Sales tax revenue was \$4.8 million higher than expected in September, making it the strongest month for sales tax (relative to expectations) since June, when the sales tax was \$9.1 million

higher than expected. September collections represent primarily August sales activity, so there is one more month of collections at the old 5% rate. It is impossible to separate how much of any month's activity is due to anticipatory buying (in advance of the scheduled rate increase) but it is safe to say that it probably will cause most of its impact next month. In fact, while the topic of the special session was known throughout the month of August, the October 1 sales tax rate increase was not a fact until completion of the special session in late August.

Product taxes were \$1.6 million below target in September due to a timing issue related to the new distribution formula associated with liquor surcharge revenue. This was almost completely offset by miscellaneous revenue that came in \$1.5 million higher due primarily to higher-than-expected interest earnings.